

# PERAC AUDIT REPORT



## Cambridge Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2004 / PERAC 04: 11-025-04



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

April 13, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Cambridge Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 2001 to December 31, 2004. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There are no significant audit findings to report.

We commend the Cambridge Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Ryan, James Tivnan, and Carol Niemira who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



# Cambridge Retirement System

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
<b>ASSETS</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Cash	\$20,688,139	\$18,651,076	\$21,645,799	\$21,383,593
Short Term Investments	0	15,477,283	0	0
Fixed Income Securities	91,864,182	188,578,327	170,525,485	174,093,838
Equities	180,973,979	159,126,214	112,528,172	142,211,291
Pooled Domestic Equity Funds	84,513,359	79,980,619	75,463,701	70,658,178
Pooled International Equity Funds	58,457,394	50,107,665	38,359,400	41,076,184
Pooled Domestic Fixed Income Funds	96,212,827	3,995,427	4,873,473	4,357,771
Pooled Alternative Investment Funds	4,965,082	5,266,399	8,579,271	8,227,006
Pooled Real Estate Funds	38,920,131	21,139,828	15,355,181	13,922,695
Interest Due and Accrued	1,325,088	2,383,962	2,495,688	2,899,393
Accounts Receivable	7,715,810	6,729,205	8,306,081	8,329,435
Accounts Payable	(1,031,367)	(18,663,991)	(14,386,954)	(8,402,010)
<b>TOTAL</b>	<b><u>\$584,604,624</u></b>	<b><u>\$532,772,014</u></b>	<b><u>\$443,745,296</u></b>	<b><u>\$478,757,374</u></b>
<b>FUND BALANCES</b>				
Annuity Savings Fund	\$145,472,784	\$137,415,262	\$128,924,418	\$121,838,836
Annuity Reserve Fund	40,174,151	37,680,137	34,906,374	30,490,188
Pension Fund	53,608,383	59,273,125	63,023,367	67,147,089
Military Service Fund	1,833	1,822	1,811	4,247
Expense Fund	0	0	0	0
Pension Reserve Fund	345,347,473	298,401,669	216,889,327	259,277,014
<b>TOTAL</b>	<b><u>\$584,604,624</u></b>	<b><u>\$532,772,014</u></b>	<b><u>\$443,745,296</u></b>	<b><u>\$478,757,374</u></b>

## Cambridge Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Pension Fund</b>	<b>Military Service Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (2001)</b>	\$113,658,610	\$29,325,262	\$68,725,189	\$4,168	\$0	\$280,166,897	<b>\$491,880,126</b>
Receipts	15,595,429	886,697	24,339,408	79	3,022,057	(20,889,203)	<b>22,954,466</b>
Interfund Transfers	(4,141,402)	4,142,082	0	0	0	(681)	<b>(0)</b>
Disbursements	<u>(3,273,802)</u>	<u>(3,863,852)</u>	<u>(25,917,508)</u>	<u>0</u>	<u>(3,022,057)</u>	<u>0</u>	<b><u>(36,077,218)</u></b>
<b>Ending Balance (2001)</b>	<b>121,838,836</b>	<b>30,490,188</b>	<b>67,147,089</b>	<b>4,247</b>	<b>0</b>	<b>259,277,014</b>	<b>478,757,374</b>
Receipts	17,554,695	914,206	22,472,162	1,753	2,970,979	(42,598,503)	<b>1,315,291</b>
Interfund Transfers	(7,782,534)	7,575,906	0	(4,189)	0	210,816	<b>0</b>
Disbursements	<u>(2,686,579)</u>	<u>(4,073,927)</u>	<u>(26,595,884)</u>	<u>0</u>	<u>(2,970,979)</u>	<u>0</u>	<b><u>(36,327,369)</u></b>
<b>Ending Balance (2002)</b>	<b>128,924,418</b>	<b>34,906,374</b>	<b>63,023,367</b>	<b>1,811</b>	<b>0</b>	<b>216,889,327</b>	<b>443,745,296</b>
Receipts	17,025,763	1,169,370	25,736,879	11	3,154,859	81,519,966	<b>128,606,848</b>
Interfund Transfers	(6,130,947)	6,138,570	0	0	0	(7,624)	<b>(0)</b>
Disbursements	<u>(2,403,973)</u>	<u>(4,534,177)</u>	<u>(29,487,121)</u>	<u>0</u>	<u>(3,154,859)</u>	<u>0</u>	<b><u>(39,580,130)</u></b>
<b>Ending Balance (2003)</b>	<b>137,415,262</b>	<b>37,680,137</b>	<b>59,273,125</b>	<b>1,822</b>	<b>0</b>	<b>298,401,669</b>	<b>532,772,014</b>
Receipts	18,116,934	1,181,356	25,933,660	303	3,718,391	46,699,259	<b>95,649,904</b>
Interfund Transfers	(6,690,777)	6,371,439	72,793	0	0	246,545	<b>(0)</b>
Disbursements	<u>(3,368,635)</u>	<u>(5,058,780)</u>	<u>(31,671,194)</u>	<u>(292)</u>	<u>(3,718,391)</u>	<u>0</u>	<b><u>(43,817,293)</u></b>
<b>Ending Balance (2004)</b>	<b><u>\$145,472,784</u></b>	<b><u>\$40,174,151</u></b>	<b><u>\$53,608,383</u></b>	<b><u>\$1,833</u></b>	<b><u>\$0</u></b>	<b><u>\$345,347,473</u></b>	<b><u>\$584,604,624</u></b>

# Cambridge Retirement System

## STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Annuity Savings Fund:</b>				
Members Deductions	\$16,040,530	\$15,066,987	\$13,911,742	\$12,668,299
Transfers from other Systems	711,217	231,128	701,685	612,883
Member Make Up Payments and Redeposits	385,896	227,043	1,051,773	230,190
Member Pmnts from Rollovers	188,738	259,672	236,094	0
Investment Income Credited to Member Accounts	790,553	1,240,933	1,653,401	2,084,057
<b>Sub Total</b>	<b><u>18,116,934</u></b>	<b><u>17,025,763</u></b>	<b><u>17,554,695</u></b>	<b><u>15,595,429</u></b>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited Annuity Reserve Fund	<b><u>1,181,356</u></b>	<b><u>1,169,370</u></b>	<b><u>914,206</u></b>	<b><u>886,697</u></b>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	581,891	515,323	665,312	387,161
Received from Commonwealth for COLA and				
Survivor Benefits	1,373,894	1,459,758	408,100	1,921,800
Pension Fund Appropriation	<u>23,977,875</u>	<u>23,761,798</u>	<u>21,398,751</u>	<u>22,030,446</u>
<b>Sub Total</b>	<b><u>25,933,660</u></b>	<b><u>25,736,879</u></b>	<b><u>22,472,162</u></b>	<b><u>24,339,408</u></b>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account				
of Military Service	292	0	1,752	0
Investment Income Credited Military Service Fund	<u>11</u>	<u>11</u>	<u>1</u>	<u>79</u>
<b>Sub Total</b>	<b><u>303</u></b>	<b><u>11</u></b>	<b><u>1,753</u></b>	<b><u>79</u></b>
<b>Expense Fund:</b>				
Investment Income Credited to Expense Fund	<u>3,718,391</u>	<u>3,154,859</u>	<u>2,970,979</u>	<u>3,022,057</u>
<b>Sub Total</b>	<b><u>3,718,391</u></b>	<b><u>3,154,859</u></b>	<b><u>2,970,979</u></b>	<b><u>3,022,057</u></b>
<b>Pension Reserve Fund:</b>				
Interest Not Refunded	56,729	42,827	35,039	59,434
Miscellaneous Income	37,789	63,448	4,388	0
Excess Investment Income	<u>46,604,740</u>	<u>81,413,691</u>	<u>(42,637,930)</u>	<u>(20,948,637)</u>
<b>Sub Total</b>	<b><u>46,699,259</u></b>	<b><u>81,519,966</u></b>	<b><u>(42,598,503)</u></b>	<b><u>(20,889,203)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$95,649,904</u></b>	<b><u>\$128,606,848</u></b>	<b><u>\$1,315,291</u></b>	<b><u>\$22,954,466</u></b>

# Cambridge Retirement System

## STATEMENT OF DISBURSEMENTS

FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004

FOR THE PERIOD ENDING DECEMBER 31,				
	2004	2003	2002	2001
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$2,738,444	\$2,009,766	\$2,037,873	\$2,370,018
Transfers to other Systems	630,191	394,207	648,706	903,784
<b>Sub Total</b>	<b><u>3,368,635</u></b>	<b><u>2,403,973</u></b>	<b><u>2,686,579</u></b>	<b><u>3,273,802</u></b>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	4,813,331	4,444,487	3,841,492	3,689,744
Option B Refunds	245,450	89,690	232,434	174,108
<b>Sub Total</b>	<b><u>5,058,780</u></b>	<b><u>4,534,177</u></b>	<b><u>4,073,927</u></b>	<b><u>3,863,852</u></b>
<b>Pension Fund:</b>				
Pensions Paid				
Regular Pension Payments	19,448,238	18,411,178	15,864,486	15,360,948
Survivorship Payments	1,926,321	1,763,638	1,664,021	1,844,630
Ordinary Disability Payments	521,570	540,571	549,829	565,863
Accidental Disability Payments	6,511,419	5,845,127	5,663,249	5,562,350
Accidental Death Payments	2,303,868	2,116,461	2,048,717	1,834,012
Section 101 Benefits	283,331	263,944	299,162	273,910
3 (8) (c) Reimbursements to Other Systems	676,448	546,203	506,421	475,794
<b>Sub Total</b>	<b><u>31,671,194</u></b>	<b><u>29,487,121</u></b>	<b><u>26,595,884</u></b>	<b><u>25,917,508</u></b>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>292</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	16,500	15,750	16,500	16,500
Salaries	354,503	331,998	315,406	305,342
Legal Expenses	42,211	40,246	34,699	38,555
Medical Expenses	739	51	110	141
Fiduciary Insurance	32,841	9,977	9,861	0
Service Contracts	17,390	12,716	14,800	0
Rent Expense	145,585	151,259	105,061	0
Travel Expenses	10,841	11,166	9,809	17,454
Administrative Expenses	72,599	43,810	54,363	183,161
Furniture and Equipment	15,252	24,881	12,115	19,850
Management Fees	2,731,030	2,267,413	2,107,962	2,140,312
Custodial Fees	182,899	149,591	194,292	194,993
Consultant Fees	96,000	96,000	96,000	105,750
<b>Sub Total</b>	<b><u>3,718,391</u></b>	<b><u>3,154,859</u></b>	<b><u>2,970,979</u></b>	<b><u>3,022,057</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$43,817,293</u></b>	<b><u>\$39,580,130</u></b>	<b><u>\$36,327,369</u></b>	<b><u>\$36,077,218</u></b>

# Cambridge Retirement System

## INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 2001  
AND ENDING DECEMBER 31, 2004**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Investment Income Received From:</b>				
Cash	\$207,040	\$243,375	\$520,294	\$1,382,012
Short Term Investments	20,392	70,983	0	48,196
Fixed Income	9,035,901	12,489,355	12,863,271	12,905,884
Equities	2,200,439	1,930,059	1,846,159	1,191,278
Pooled or Mutual Funds	3,499,805	2,917,858	2,781,503	2,745,057
Commission Recapture	<u>37,023</u>	<u>50,767</u>	<u>19,467</u>	<u>10,093</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>15,000,601</u></b>	<b><u>17,702,396</u></b>	<b><u>18,030,694</u></b>	<b><u>18,282,521</u></b>
<b>Plus:</b>				
Realized Gains	15,281,360	11,232,441	7,428,898	18,944,060
Unrealized Gains	48,299,446	84,711,957	17,881,955	24,959,389
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>1,325,088</u>	<u>2,383,962</u>	<u>2,495,688</u>	<u>2,899,393</u>
<b>Sub Total</b>	<b><u>64,905,894</u></b>	<b><u>98,328,360</u></b>	<b><u>27,806,541</u></b>	<b><u>46,802,841</u></b>
<b>Less:</b>				
Paid Accrued Interest on Fixed Income Securities	(1,235,839)	(2,160,377)	(1,777,734)	(2,098,963)
Realized Loss	(11,506,731)	(7,839,851)	(27,304,623)	(27,840,652)
Unrealized Loss	(12,484,911)	(16,555,977)	(50,954,830)	(47,472,114)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(2,383,962)</u>	<u>(2,495,688)</u>	<u>(2,899,393)</u>	<u>(2,629,381)</u>
<b>Sub Total</b>	<b><u>(27,611,444)</u></b>	<b><u>(29,051,893)</u></b>	<b><u>(82,936,579)</u></b>	<b><u>(80,041,109)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>52,295,051</u></b>	<b><u>86,978,863</u></b>	<b><u>(37,099,344)</u></b>	<b><u>(14,955,748)</u></b>
<b>Income Required:</b>				
Annuity Savings Fund	790,553	1,240,933	1,653,401	2,084,057
Annuity Reserve Fund	1,181,356	1,169,370	914,206	886,697
Military Service Fund	11	11	1	79
Expense Fund	<u>3,718,391</u>	<u>3,154,859</u>	<u>2,970,979</u>	<u>3,022,057</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>5,690,311</u></b>	<b><u>5,565,172</u></b>	<b><u>5,538,586</u></b>	<b><u>5,992,889</u></b>
Net Investment Income	<u>52,295,051</u>	<u>86,978,863</u>	<u>(37,099,344)</u>	<u>(14,955,748)</u>
Less: Total Income Required	<u>5,690,311</u>	<u>5,565,172</u>	<u>5,538,586</u>	<u>5,992,889</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$46,604,740</u></b>	<b><u>\$81,413,691</u></b>	<b><u>(\$42,637,930)</u></b>	<b><u>(\$20,948,637)</u></b>



## Cambridge Retirement System

### **STATEMENT OF ALLOCATION OF INVESTMENTS OWNED**

(percentages by category)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$20,688,139	3.59%	100
Fixed Income Securities	91,864,182	15.93%	35-80
Equities	180,973,979	31.39%	60
Pooled Domestic Equity Funds	84,513,359	14.66%	60
Pooled International Equity Funds	58,457,394	10.14%	10
Pooled Domestic Fixed Income Funds	96,212,827	16.69%	35-80
Pooled Alternative Investment Funds	4,965,082	0.86%	5
Pooled Real Estate Funds	38,920,131	6.75%	5
<b>GRAND TOTALS</b>	<b><u>\$576,595,093</u></b>	<b><u>100.00%</u></b>	

For the year ending December 31, 2004, the rate of return for the investments of the Cambridge Retirement System was 9.62%. For the five-year period ending December 31, 2004, the rate of return for the investments of the Cambridge Retirement System averaged 5.04%. For the twenty-year period ending December 31, 2004, since PERAC began evaluating returns of the retirement systems, the rate of return of the investments of the Cambridge Retirement System was 10.83%.

## **Cambridge Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

The Cambridge Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

May 19, 1988

Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and at this time shall be limited to the amount specified in your application, and shall consist of real estate trusts and real estate limited partnerships, provided that: trust participants or limited partners do not participate in the selection of trustees or general partners, and, should a limited partner be required to participate in the selection of a general partner, prior to any participation by the board as limited partner, the board shall consult with PERA to determine the appropriate course of action, and such trustees or general partners retain authority in the decision making process, and should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

November 9, 1990

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 50% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.04(1) United States based corporations and equities of foreign corporations

20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

## Cambridge Retirement System

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

20.07(10) A separate account may be used for real estate provided that:

- (a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action, and
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in a separate account result in the direct ownership of real estate, such shall be permitted only until such time as divestiture is prudent.

February 25, 1992

18.02(4) *Rate of Return.* A statement of the rate of return objective for the entire portfolio which shall be at least one percent (100 basis points) greater than a composite performance index consisting of fifty percent of the Standard and Poor's "500" Stock Index and fifty percent of the Shearson Lehman Government/Corporate Bond Index, cumulated quarterly.

July 28, 1992

16.02(4) For the calendar year ending December 31, 1991, the amount that may be charged against the earnings of the fund may exceed the amount authorized pursuant to Regulation 840 CMR 16.02(3) by \$104,764.36.

16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. As of January 1, 1991, such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million; and
- (b) 0.5% of the value of the fund in excess of \$5 million.

16.02(5) The board may employ a custodian bank and as of January 1, 1991, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

March 31, 1994

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the fixed income portfolio valued at market.

## **Cambridge Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of B or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed the one year, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of B or equivalent.

January 30, 1995

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of the investment, shall be considered a separate asset class, and provided further that:

(a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.

20.09(3) All venture capital investment shall be made in companies which have their principal places of business in the United States.

April 18, 1996

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the fixed income portfolio valued at market and including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

## **Cambridge Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

March 12, 2001

- 16.08 Having voted to terminate the large-cap value equity portfolio managed by Freedom Capital Management Corporation, the Cambridge Retirement Board is authorized to invest in the State Street Global Advisors large cap value index fund as a temporary measure to maintain the system's asset allocation pending completion of a formal search process for a permanent replacement manager. The Board has an existing relationship with SSgA, a leader in institutional index funds

July 27, 2004

- 16.08 In accordance with Investment Guideline 99-3, the Cambridge Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The board has been a satisfied investor in the two predecessor partnerships, Ascent Venture Partners II and Ascent Venture Partners III, and seeks to maintain its asset allocation to venture capital by investing in Ascent Venture Partners IV.

April 7, 2005

- 16.08 The Cambridge Retirement Board is authorized to modify the structure of its mid cap growth equity mandate with Loomis Sayles & Company from a commingled fund to a separately managed account. This change was necessitated by Loomis Sayles' decision to terminate the commingled fund. The portfolio management team and investment strategy remain the same.

April 28, 2005

- 19.01 Notwithstanding the provisions of Public Employee Retirement Administration Commission regulations, the Cambridge Retirement Board may invest funds of the Cambridge Retirement System (the "System") in the fund known as AEW Partners V, L.P. ("the Fund"), and while the funds of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq.; the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" or "real estate operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder. The Limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

# **Cambridge Retirement System**

## **NOTES TO FINANCIAL STATEMENTS**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all Cambridge Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Cambridge Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## Cambridge Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Cambridge Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

March 7, 1989

#### Regular Compensation

Regular compensation for firefighters shall include:

1. regular base pay
2. working out of grade
3. holiday pay only as authorized by law



## **Cambridge Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

4. hazardous duty pay or educational incentive
5. longevity
6. weekend differential
7. night differential
8. E.M.T. compensation
9. 1st responder compensation

October 29, 1996

#### **Creditable Service**

Any permanent employee of the Cambridge School Department who is not a certified teacher and therefore eligible to apply for membership in the Retirement System will be given credit for a full year of creditable service if they are employed full time for the job they perform if the job only occurs during the school year.

Permanent full-time employment in the School System would be the maximum number of hours that are assigned to the job function so long as the number equals 20 hours per week. The creditable service will accrue as full-time so long as the member continues in that category (position) to retirement.

Creditable service for all part-time, provisional, temporary, temporary provisional, per diem, seasonal or intermittent employment and/or service shall be computed to credit the member for that proportion of a normal year which the number of days actually worked during that year bears to the normal working year from the department under which the employee works.

Creditable service for all part-time salaried employees will be pro-rated on the basis of the proportion which the actual salary received bears to what the salary would be for the same position if it were full-time.

October 29, 1996

#### **Membership**

Permanent part-time employment will be any employee who is employed at least twenty (20) hours per week in a position or in more than one position so that when hours of employment are added together those hours equal at least twenty (20) hours per week.

#### **Membership/CETA Employees**

CETA employees and Grant funded employees shall become members of the retirement system. If these employees later become employed by the City, they will be allowed to make payment toward creditable service for the time they worked under such programs.

## **Cambridge Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

October 29, 1996

##### **Membership (Cont'd)**

All non-compensated appointed officials, whether members of board or commissions and the like who do not receive regular compensation as set forth under Chapter 32 are not eligible for membership in the Retirement System.

All non-elected appointed officials, board members and commissioners who receive compensation and work less than twenty (20) hours per week may join the Cambridge Retirement System. They shall only be credited with one (1) year of creditable service for every three (3) years of service rendered in such capacity, so long as the member does not receive in excess of one (1) year of combined service for dual functions in any calendar year.

May 18, 1998

##### **Group Classification**

Any employee of the Emergency Telecommunications Department holding the title with job description of the following: "Emergency Telecommunications Dispatcher" and "Fire Alarm Operator" replaces the positions of "fire or police signal operators or signal maintenance repairman," as stated in Chapter 32, s. 3(2)(G), Group 2.

April 21, 2000

##### **Regular Compensation: Motor Vehicle Use**

A member who is provided a motor vehicle for personal use by the employer as a necessary and usual requirement of the member's employment shall be credited annually as regular compensation an amount which shall be determined by adopting the taxable value of same as set by the member's employer, and as appearing on the member's W-2 form. Said regular compensation shall be approved upon payment of appropriate retirement contribution by the member.

A member who receives a standard and regularly paid allowance from the employer for use of the member's personal motor vehicle in the course of performing the member's duties, as appearing on the member's W-2 form, shall be credited annually with the additional regular compensation in the amount of said allowance upon payment of appropriate retirement contribution by the member.

Varying, sporadic or irregular reimbursement by the employer to a member for use of the member's motor vehicle shall not be considered regular compensation.

## Cambridge Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004

##### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: James H. Monagle

Appointed Member: Michael P. Gardner                      Term Expires: 02/26/07

Elected Member: Sheila M. Tobin                      Term Expires: 10/01/07

Elected Member: Bradford P. Tenney                      Term Expires: 12/1/05

Appointed Member: Daniel C. Crane                      Term Expires: 01/19/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Surety Bond Insurance:	)	
Board Members	)	640,000.00
Executive Director	)	National Grange Mutual Ins. Co.
Staff Clerk	)	

# Cambridge Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Group, Inc., as of January 1, 2004.

The actuarial liability for active members was	\$345,362,271
The actuarial liability for retired & inactive members was	<u>309,744,420</u>
The total actuarial liability was	<b>655,106,691</b>
System assets as of that date were	569,500,055
The unfunded actuarial liability was	<u><b>\$85,606,636</b></u>
 The ratio of system's assets to total actuarial liability was	 86.9%
As of that date the total covered employee payroll was	\$184,254,181

The normal cost for employees on that date was 8.68% of payroll

The normal cost for the employer was 4.73% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.50% per annum

**Rate of Salary Increase:** 5.50% per annum

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2004	\$ 569,500,055	\$ 655,106,691	\$ 85,606,636	86.9%	\$ 184,254,181	46.5%
1/1/2002	\$ 516,947,036	\$ 578,049,645	\$ 61,102,609	89.4%	\$ 167,302,844	36.5%
1/1/2000	\$ 424,606,168	\$ 510,972,656	\$ 86,366,488	83.1%	\$ 140,488,609	61.5%
1/1/1998	\$ 342,787,664	\$ 436,216,298	\$ 93,428,634	78.6%	\$ 132,439,810	70.5%

## Cambridge Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2004**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Superannuation	39	45	71	54	58	69	70	114	92	55
Ordinary Disability	0	1	4	3	2	3	0	1	1	2
Accidental Disability	9	8	8	2	6	9	6	7	15	9
Total Retirements	<b>48</b>	<b>54</b>	<b>83</b>	<b>59</b>	<b>66</b>	<b>81</b>	<b>76</b>	<b>122</b>	<b>108</b>	<b>66</b>
Total Retirees, Beneficiaries and Survivors	1,579	1,578	1,607	1,590	1,621	1,723	1,660	1,717	1,735	1,736
Total Active Members	3,411	3,387	3,471	4,265	4,623	5,300	5,535	6,215	6,225	6,152
<b>Pension Payments</b>										
Superannuation	\$10,950,025	\$11,372,920	\$12,045,343	\$12,659,803	\$13,574,197	\$14,615,170	\$15,630,948	\$15,864,486	\$18,411,178	\$19,448,238
Survivor/Beneficiary Payments	1,229,109	1,240,054	1,249,233	1,292,494	1,351,381	1,421,065	1,844,630	1,664,021	1,763,638	1,926,321
Ordinary Disability	414,502	406,248	430,734	453,128	489,800	535,578	565,863	549,829	540,571	521,570
Accidental Disability	4,712,570	4,869,999	4,963,223	1,663,161	5,139,571	5,667,506	5,562,350	5,663,249	5,845,127	6,511,419
Other	<u>1,884,813</u>	<u>2,139,862</u>	<u>2,192,003</u>	<u>5,733,858</u>	<u>2,400,650</u>	<u>2,479,382</u>	<u>2,313,716</u>	<u>2,854,300</u>	<u>2,926,608</u>	<u>3,263,647</u>
Total Payments for Year	<b><u>\$19,191,019</u></b>	<b><u>\$20,029,083</u></b>	<b><u>\$20,880,536</u></b>	<b><u>\$21,802,444</u></b>	<b><u>\$22,955,599</u></b>	<b><u>\$24,718,701</u></b>	<b><u>\$25,917,508</u></b>	<b><u>\$26,595,884</u></b>	<b><u>\$29,487,121</u></b>	<b><u>\$31,671,194</u></b>

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